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FISCAL IMPACT STATEMENT

LS 7168 | **NOTE PREPARED:** Jan 20, 2015
BILL NUMBER: HB 1575 | **BILL AMENDED:**

SUBJECT: Tax Credit for New Small Businesses.

FIRST AUTHOR: Rep. Wright | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: <u>X</u> **GENERAL** | **IMPACT:** State
DEDICATED
FEDERAL

<u>Summary of Legislation:</u> The bill provides that a taxpayer that is a qualified small business startup is entitled to a graduated tax credit against adjusted gross income (AGI) tax liability.

It defines a "qualified small business startup" as a business that:
(1) is not part of an affiliated group of corporations or under common control
(2) has fewer than 10 full-time employees
(3) has sales of not more than $1,000,000
(4) is not publicly traded
(5) during the preceding five years, was in the first year of employer compliance concerning worker's compensation requirements.

The amount of the graduated tax credit is:
(1) 100% of adjusted gross income tax liability for the first taxable year of the qualified small business startup
(2) 80% of adjusted gross income tax liability for the second consecutive taxable year of the qualified small business startup
(3) 60% of adjusted gross income tax liability for the third consecutive taxable year of the qualified small business startup
(4) 40% of adjusted gross income tax liability for the fourth consecutive taxable year of the qualified small business startup
(5) 20% of adjusted gross income tax liability for the fifth consecutive taxable year of the qualified small business startup.

<u>Effective Date:</u> January 1, 2016.

<u>Explanation of State Expenditures:</u> *Department of State Revenue (DOR)*: The DOR would incur additional administrative costs in implementing the tax credit established by the bill. The additional costs would be within the DOR's existing resources.

<u>Explanation of State Revenues:</u> *<u>Summary-</u>* This bill establishes a graduated tax credit against AGI tax liability for qualified small business startups. The tax credit is effective beginning in tax year 2016, and the revenue impact will likely begin in FY 2017. The provision may decrease revenue into the General Fund by approximately \$23.4 M to \$25.7 M during FY 2017; \$36.9 M to \$40.2 M during FY 2018; \$45.2 M to \$48.4 M during FY 2019; \$49.6 M to \$52.9 M during FY 2020; and \$51.4 M to \$54.8 M during FY 2021.

We do not have information on how many small business startups become publicly traded during their first five years in business. Therefore, the actual revenue loss may be less than estimated to the extent that some firms may become publicly traded during that period.

<u>Additional Information-</u> We examine quarterly employer reports filed for purposes of unemployment compensation taxes for the period 2005 to 2013. An estimated 9,500 to 13,800 C-corporations, S-corporations, partnerships and sole proprietorships with fewer than 10 full-time employees commence business operations in Indiana annually. We use Economic Census data to scale establishment-level payroll to business income and apply the appropriate tax rate for a given year to derive the tax liability for each taxable year of a small business startup. Note that C-corporations adhere to the corporate tax rate, while S-corporations, partnerships, and sole proprietorships adhere to the individual tax rate. The range for each fiscal year allows for differences in business environment between the period 2005 to 2009 and the period 2009 to 2013.

<u>Explanation of Local Expenditures:</u>

<u>Explanation of Local Revenues:</u>

<u>State Agencies Affected:</u> Department of State Revenue.

<u>Local Agencies Affected:</u>

<u>Information Sources:</u> LSA unemployment payroll reporting database; U.S. Internal Revenue Service, *Statistics of Income*; U.S. Census Bureau, *Economic Census*.

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